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Using Co-op Members' Money

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FARMER COOPERATIVE SERVICE
U.S. DEPARTMENT OF AGRICULTURE

Farmer Cooperative Service provides research, management, and educational assistance to cooperatives to strengthen the economic position of farmers and other rural residents. It works directly with cooperative leaders and Federal and State agencies to improve organization, leadership, and operation of cooperatives and to give guidance to further development.

The Service (1) helps farmers and other rural residents obtain supplies and services at lower cost and to get better prices for products they sell; (2) advises rural residents on developing existing resources through cooperative action to enhance rural living; (3) helps cooperatives improve services and operating efficiency; (4) informs members, directors, employees, and the public on how cooperatives work and benefit their members and their communities; and (5) encourages international cooperative programs.

The Service publishes research and educational materials and issues *News for Farmer Cooperatives*. All programs and activities are conducted on a nondiscriminatory basis, without regard to race, creed, color, sex, or national origin.

This publication is one of a series designed to provide basic cooperative information.

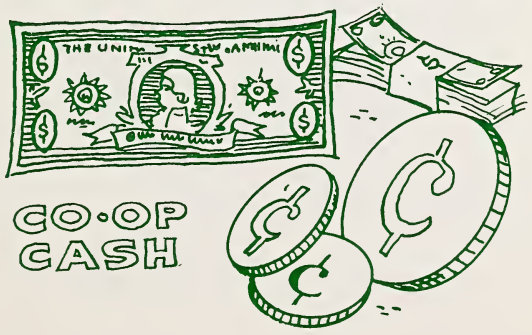
Information 79 **Revised November 1975**

Using Co-op Members' Money

By C. H. Kirkman, Jr.
Farmer Cooperative Service

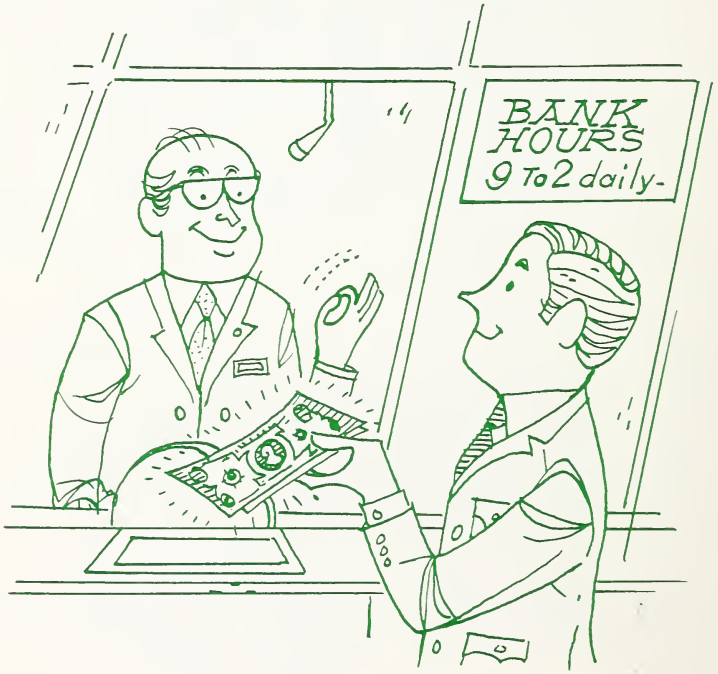
Cooperative members use and own their business.

The cooperative business needs money to get started.



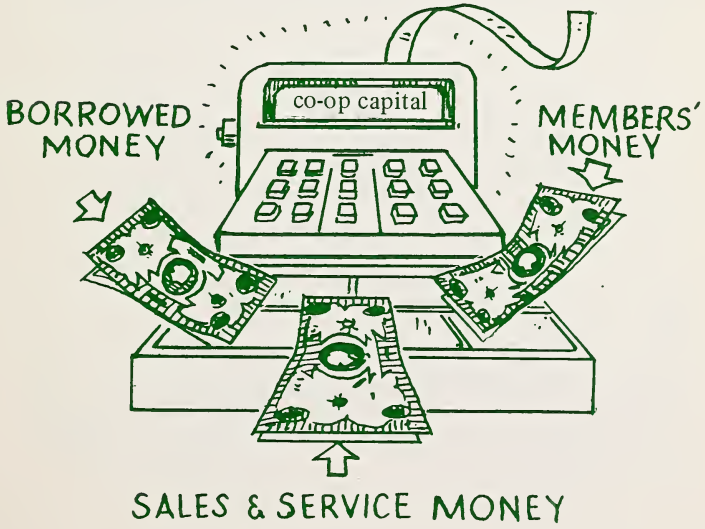
Members provide some of the money the co-op business needs to serve them.

The co-op also may get a loan from a Bank for Cooperatives, commercial banks, other lending organizations, or individuals.



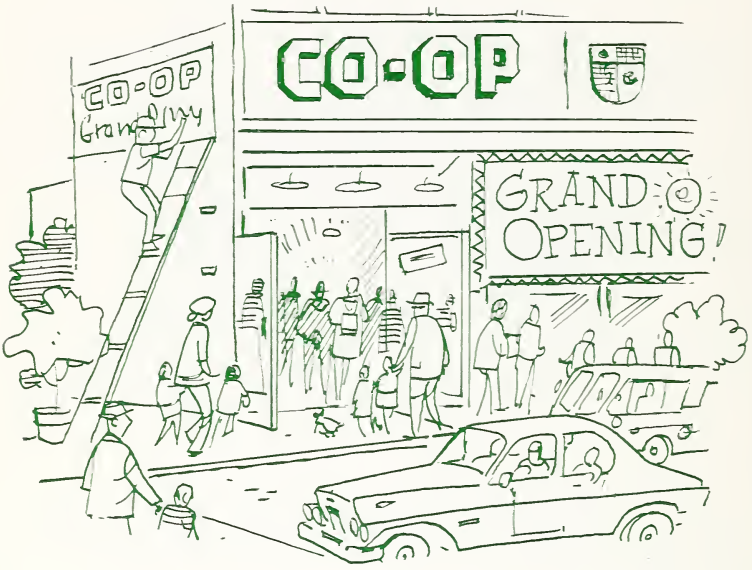
Members' money and borrowed money - called "capital" - permit the co-op to begin doing business.

Money also comes into the cooperative when it sells supplies, products, or finished goods, or provides services.



Co-op capital:

- Pays for a place to do business, for equipment, utilities, insurance, taxes, and other operating expenses.

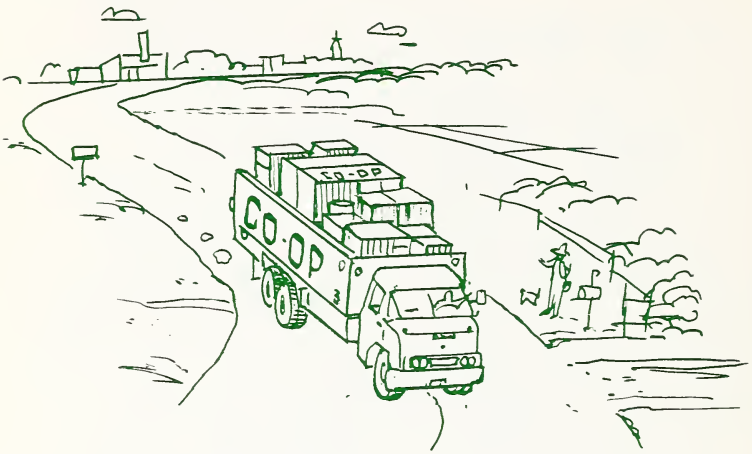


- Pays salaries for a manager and other employees.

- Provides supplies.

- Helps sell products, finished goods, merchandise, or stock.

- Pays for services such as, transporting, grading, or processing the products or supplies.



Capital should be used many times a year. Think of the business as a wheel. The wheel needs to keep turning, so the co-op capital is used over and over in buying, selling, servicing, and collecting.

If the capital is used wisely, it can provide bigger benefits as the business wheel turns faster.
For example:

Let's imagine a supply co-op that sells $100,000 worth of supplies a year to its members. The amount of sales over operating expenses—called net margins—is $5,000. This co-op has a net margin of 5 percent.

Suppose the total co-op capital used is $50,000. Because sales are $100,000, the $50,000 is used 2 times during the year. The return on co-op capital used is 2 multiplied by 5 percent, or 10 percent.

NET MARGIN $5,000
DIVIDED BY
SALES $100,000
NET MARGIN 5%
MULTIPLIED BY
SALES $100,000
DIVIDED BY
TOTAL CO-OP CAPITAL USED $50,000
USED 2 TIMES
RETURN ON CO-OP CAPITAL 10%

Now, suppose the same co-op used only $25,000 in capital to get $100,000 in sales. This means the capital was used 4 times during the year. The return on the capital—4 multiplied by 5 percent—increases to 20 percent.

NET MARGIN $5,000
DIVIDED BY
SALES $100,000
NET MARGIN 5%
MULTIPLIED BY
SALES $100,000
DIVIDED BY
TOTAL CO-OP CAPITAL USED $25,000
USED 4 TIMES
RETURN ON CO-OP CAPITAL 20%

Co-op capital can be used more times during the year by:

- Selling for cash.

- Collecting accounts promptly in cases where co-op policy lets members charge what they buy.

- Asking for cash advance from buyers on products sold for members, and cash deposit from members for special order supplies.

- Bargaining to get the best supplies and services at the lowest price for members

- Using cash discounts on supplies purchased for members.

- Holding special sales to get slow moving items out of inventory. Avoiding reordering or producing slow moving items.

- Re-examining credit policy and cash discounts when payments are slow.

As co-op capital grows through good money management, the co-op:

- Repays its loan.

- Pays interest or dividends on members' money invested in the co-op.

- Pays net margins to members on the basis of their use of the cooperative. These payments are patronage refunds.

Summing up –

Members' money and borrowed money used in the co-op help it give better service. The more efficiently this capital is used, the more likely the co-op will improve services and members' income.

OTHER PUBLICATIONS

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Information 81

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